

A Geopolitical Supply Shock Repriced Indian Bonds

Key Macro Indicators (March 2026)

\$103.7

Brent Crude avg (Mar) +45.85% MoM

94.65

USD/INR (Mar 30) vs 92.44 on Mar 13

3.88%

WPI YoY (up from 2.13% in Feb)

3.4%

CPI YoY (up from 3.21%; within RBI target)

External & Fiscal

- Trade deficit \$20.67bn (Feb: \$27.10bn)
- Exports -7.44% YoY; Imports -6.51% YoY
- CAD: \$13.2bn (1.3% GDP) Q3FY26
- Unemployment 5.1% (5-month high)
- Mfg PMI: 56.9 (4-month high, Feb)
- System liquidity surplus ~Rs 1.59L cr (vs Rs 2.53L cr in Feb)

- ▶ Crude at \$103.7 is the dominant shock - a supply disruption, not a demand signal. India's import-heavy energy bill amplifies the rupee pressure disproportionately.
- ▶ CPI at 3.4% - still within RBI's band - is the silver lining. WPI at 3.88% is the early-warning indicator to watch; producer-price pressures typically lag into CPI by 2-3 months.
- ▶ Narrowing trade deficit reflects demand compression - not export strength. A weak rupee at 94.65 increases import costs further, creating a feedback loop.

Data Sources(All Slides) : RBI, CRISIL, Edelweiss MF, RBL

Bottom Line: March 2026 was a perfect storm - crude, rupee, and liquidity tightening hit simultaneously. The macro data shows early cracks (rising unemployment, CAD widening) but CPI holding below 4% prevents a policy panic.

Five Key Drivers Behind the March Bond Sell-Off

1. West Asia Conflict

US-Israel-Iran tensions escalated. Strait of Hormuz supply risk hit ~20% of global crude. Brent surged to \$103.7/bbl avg in March, up 45.85% MoM.

2. Crude Oil Surge

Brent averaged \$103.7 vs 12M avg of \$70.3. Rising energy costs drove WPI to 3.88% (from 2.13%), revived inflation fears and pressured India's external balances.

3. Rupee at Record Lows

USD/INR hit 94.65 (Mar 30) vs 92.44 (Mar 13) amid FPI outflows of Rs 1,17,775 cr (equity) and a surging crude import bill. Weaker rupee raised imported inflation risk and risk premiums.

4. Hawkish Global Backdrop

US 10Y hardened to 4.35% (Feb: 3.97%) as Fed warned crude could revive inflation. Markets repriced rate cuts; FPI debt outflows Rs 8,469 cr; India-US spread narrowed to 267 bps.

5. Liquidity Tightening & CAD Widening

System liquidity surplus fell to ~Rs 1.59L cr (Feb: Rs 2.53L cr). Call rate spiked from 5.11% to 6.90%. CAD widened to \$13.2bn (1.3% of GDP) in Q3FY26 vs \$11.3bn in Q3FY25 - amplifying bond market stress.

Net Effect:

A perfect storm of geopolitical risk, crude shock, rupee weakness, liquidity squeeze, and CAD widening - the sharpest single-month G-Sec spike since October 2023.

10-Year G-Sec Rose 36 bps in March; Curve Steepened Sharply

Key Yield Moves

7.02%

10Y G-Sec (+36 bps; Feb: 6.66%)

7.69%

10Y SDL (State Developmental Loans)
(spread: 67bps vs avg 59bps)

7.73%

10Y AAA PSU Corp
(spread over G-sec : 71bps)

6.90%

Call Rate (Mar 30) vs 5.11% (Feb 27)

- HFC (Housing Finance Companies) yields: 7.84% (Feb: 7.57%); NBFC: 7.93% (Feb: 7.67%)
- US 10Y Treasury: 4.35% (Feb: 3.97%); India-US spread: 267 bps (narrowed 2bps)
- FPI equity outflows: Rs 1,17,775 cr; FPI debt outflows: Rs 8,469 cr

- ▶ The 36bps G-Sec spike in a single month is extreme - context matters: this is the sharpest monthly move since Oct 2023. Panic, not fundamentals, drove a portion of this move.
- ▶ SDL spreads widening to 67bps (vs 12M avg of 59bps) and AAA corp to 71bps (vs 66bps) suggest credit risk repricing beyond just G-Sec - this creates tactical opportunity in quality credit.
- ▶ Call rate jumping from 5.11% to 6.90% signals a liquidity squeeze - not a rate hike. FPI outflows of Rs 8,469 cr in debt reinforce the short-term pressure but are reversible if crude stabilises.

Bottom Line: Yields rose across the entire curve - G-Sec, SDL, AAA Corp, HFC, NBFC - confirming a broad repricing, not a sectoral quirk. The curve steepened as short-end money markets spiked more violently.

Ceasefire Rally Holds - Market Has Run Ahead of Projections

The Rally in Numbers

6.91%

10Y G-Sec (Apr 17; peak: 7.02%)

\$92.42

Brent (Apr 17) vs Mar avg \$103.7

92.60

USD/INR (Apr 17) vs 94.65 (Mar 30)

3.88%

WPI (lagged crude risk; watch closely)

CRISIL Projections

Benchmark	Mar 31 (Act)	Apr 30 (Proj)	Jun 30 (Proj)
10Y G-Sec	7.02%	6.85-6.95%	6.89-6.99%
10Y SDL	7.69%	7.48-7.58%	7.52-7.62%
10Y Corp Bond	7.73%	7.52-7.62%	7.56-7.66%

G-Sec at 6.91% already inside the CRISIL Apr 30 projected band. Market has front-run the easing. Further rally limited unless crude falls materially further or RBI signals a rate cut.

- ▶ The market has repriced faster than Crisil's model projected. At 6.91%, G-sec has already entered the April-end target band - the easy money from this rally has been made.
- ▶ Brent at \$92.42 (vs \$103.7 Mar avg) is the single biggest positive. Rupee firmness at 92.60 removes imported inflation pressure - two pillars of the bond selloff are reversing together.
- ▶ WPI at 3.88% remains the tail risk - lagged crude effects may still push CPI above 4% in Apr-May, which could force RBI to hold rates longer than the market is currently pricing.

Bottom Line:

The April rally is real but the market is running ahead of its own projections. The entry window for duration trades has likely passed - focus shifts to carry and credit selection over directional rate bets.

India's Bond Market Opportunity: Moving Beyond AAA/AA

Market Scale & Skew

Rs 54L Cr

Corp bond mkt size
(Mar 2025; +50% in 5 yrs)

~95%

Issuances in AAA/AA - A-rated: only 2%

1,350

Crisil A-rated companies vs ~950
AAA/AA

A-Rated Fundamentals

- **Interest coverage: 8-9x;**
Gearing: ~0.3x (FY18-25)

- **EBITDA margins ~12%;**
Revenue 1.8x (FY18-25)

- **Downgrade rate:**
5.14% → 3.04%

- **Upgrade/downgrade ratio:**
0.56 → 1.26

**80-100 bps higher
returns vs AA**

A-rated risk-adjusted returns
(FY2018-FY2025)

- ▶ 95% of issuances in AAA/AA while 1,350 A-rated companies exist is a structural factor worth monitoring, not a risk reality.
- ▶ The credit quality data is compelling: 8-9x interest coverage, 0.3x gearing, and a downgrade rate that fell from 5.14% to 3.04% - this is not a subprime sector. The risk is liquidity, not default.
- ▶ 80-100bps extra return for accepting liquidity risk (not credit risk) over 7 years is an excellent risk-adjusted trade - particularly for investors with hold-to-maturity mandates, which is exactly the right way to own A-rated bonds.

Bottom Line:

A-rated bonds offer superior risk-adjusted returns in a market that has systematically ignored them. In a post-geopolitical shock environment where AAA yields have repriced higher, the case for moving down the rating curve is structurally stronger than ever.

What This Means for Investors and the Economy

Implications

Borrowing Costs Rise

G-Sec at 7.02% drags up SDL (7.69%) and AAA corp (7.73%) yields. HFC costs rose to 7.84% and NBFC to 7.93%, the yield spike has transmitted across the entire credit curve, raising funding costs for corporates, housing finance, and state governments alike.

FPI Debt Flight

Rs 8,469 cr in FPI debt exited India in March 2026, compounding Rs 1,17,775 cr in equity outflows. A weakening rupee (94.65) and spiking yields made Indian fixed income unattractive to foreign capital, widening the India-US spread to 267 bps.

RBI Policy Dilemma

Rate at 5.25% (post Last cut). CPI at 3.4% within band, but WPI at 3.88% and unemployment at 5.1% create a bind: premature easing risks rupee & inflation; holding hurts growth.

Outlook & Opportunities

Crisil Projection - Yields to Ease

10Y G-Sec projected at 6.85-6.95% by Apr 30 and 6.89-6.99% by Jun 2026. At 6.91% on Apr 17, the market has already front-run the April target band.

Mid-Rated Bond Opportunity

A-rated bonds deliver 80-100bps higher risk-adjusted returns vs AA (FY18-25). Downgrade rate fell to 3.04%; upgrade/downgrade ratio improved to 1.26x. Structural opportunity in a Rs 54L cr market.

Crude Oil Trajectory Watch

Brent has fallen from \$103.7 (March avg) to \$92.42 by April 17, the single biggest driver of March's bond sell-off is reversing. Every sustained decline reduces India's import bill, eases WPI pressure, and creates headroom for the RBI to cut rates. Crude is the variable that will determine whether the April rally extends or reverses.

Bottom Line:

Near-term volatility likely to persist. Yields expected to ease modestly as crude retreats and geopolitical risks stabilise. Reduce duration now; build A-rated credit positions on dips for superior carry.

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